HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Regina CMA

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2011

NEW HOME MARKET

Housing starts to moderate, yet remain elevated through 2012

Last year, a strengthening economy characterized by job growth of over three per cent, rising incomes, and elevated in-migration reinvigorated demand for housing. In response, homebuilders in the Regina Census Metropolitan Area (CMA) initiated construction of 1,347 housing units, up 45 per cent from 2009. The upturn in activity was particularly evident in the multi-family housing category, where following two successive years of moderation, starts increased by 77 per cent. Over the forecast period, sustained job creation and wage increases will again characterise

Figure 1

Source: Source: CMHC, CMHC Forecast (f)

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the economic landscape, supporting continued demand for housing. The prevalence of low mortgage rates through 2011 will also continue to encourage prospective homebuyers and reinforce housing demand.

Despite the supporting factors above, continuing advances in the price of new homes and an elevated supply of new units will temper construction in the months ahead. The increased supply of active listings in the competing resale market will also prompt some prospective buyers to turn to an existing unit to meet their housing needs. This, in turn, will trigger an increase in the inventory of new homes in the coming months. Consequently, despite an expanding economy with a vibrant labour market, total housing starts will moderate five per cent this year as local builders initiate construction of 1,275 units. Next year, advances in mortgage rates and the accompanying increase in monthly carrying costs will result in similar activity as Regina's builders begin construction of 1,270 units

Single-detached starts to remain elevated

Over the forecast period, single-detached starts will remain elevated as Regina's homebuilders initiate construction of 700 units this year before rising to 720 units in 2012. Last year, single-detached homebuilders started 708 units, up 24 per cent from the prior year as the economic upturn and record low mortgage rates strengthened demand for single-detached homes. As a result, 748 absorptions of single-detached units were recorded in 2010, marking the third highest annual tally of absorptions across the capital city in the past 23 years. These were matched by the 749 completions recorded through the year, resulting in a seven per cent year-over-year reduction in the total supply of new single-detached homes by year-end.

So far this year, Regina's builders have maintained last year's heightened pace of construction, breaking ground for 170 units to the end of March, up 21 per cent from the first three months of 2010. The brisk pace of activity thus far has begun to fuel an increase in new home supply across Regina. Following 20 consecutive months of year-over-year reductions, the total supply of single-detached homes began advancing in February 2011. Over the balance of the year, we expect this heightened pace of starts to moderate as rising house prices and the accompanying increases in homeownership costs temper consumer demand. The inventory of complete and unabsorbed units is also expected to rise in the near future, persuading builders to temper the currently elevated pace of single-detached starts.

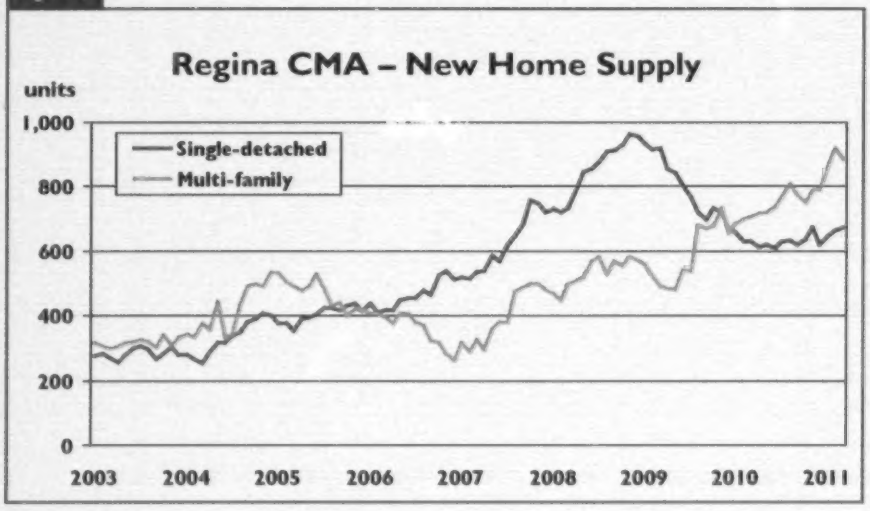
Countering the above factors, however, are expectations of continued wage and employment growth and stronger in-migration this year and next. This will mitigate some of the impact of advances in mortgage rates and house prices and buoy consumer demand for single-detached housing over the forecast period. As well, anticipated resale price gains, although down from recent years, will provide a boost to demand for new homes, as homeowners take advantage of the increased equity in their existing homes and purchase new houses with more amenities.

New House Price Index to rise 4.4 per cent in 2011

In 2010, Statistics Canada's New House Price Index (NHPI), which measures the difference in the price of new homes where the specifications remain the same between two consecutive periods, recorded a 5.2 per cent increase over the previous year. As was the case in the prior 12 years, Regina's land component of the NHPI accounted for the bulk of the gains in 2010 as a result of increased demand for newly developed lots. Last year's brisk pace of activity also exerted upward pressure on the costs of labour and building materials, fuelling an uptick in the house-only component of the NHPI. Moving forward, the strong pace of new home construction will maintain these pressures, fuelling gains of 4.4 and 3.9 per cent in 2011 and 2012, respectively. Despite the anticipated gains, however, the NHPI increases this year and next will be the lowest since 2002.

Encouraged by growing wages and historically low mortgage rates, new homebuyers in Regina continue to demonstrate an affinity for higher-priced homes with more amenities. Last year, 37 per cent of absorptions occurred above $450,000, up from a 21 per cent share in 2009. This compositional shift culminated into a 15 per cent increase in the average absorbed price to $438,979 in 2010, up from $382,043 in the prior year. Many of the homes absorbed thus far in 2011 were based on orders placed in 2010 when the economy was in the midst of an impressive growth spurt. As a result, the movement to higher price ranges has persisted this year. Accordingly, during the first quarter

Figure 2



Source: CMHC

of 2011, 44 per cent of all single-detached absorptions occurred above the $450,000 price mark, pushing the year-to-date average absorbed price up to $491,702.

The movement to higher-priced homes is expected to slow over the forecast period, constrained by the combination of weaker resale price gains, rising mortgage rates, and continued advances in monthly carrying costs. Consequently, the average absorbed price of single-detached homes will rise modestly by Regina's recent standards, increasing 5.9 per cent to $465,000 in 2011 and 2.8 per cent to $478,000 next year.

Multi-family starts decline yet remain elevated through 2012

CMHC's forecast calls for moderation from last year's elevated pace of multi-family activity, with local homebuilders breaking ground on 575 units in 2011 and 550 units in 2012. Last year, following two successive years of decline, multi-family starts, which include semi-detached, row, and apartment units, advanced 77 per cent as Regina's builders initiated construction of 639 units. Of these, 222 rental units began construction as the capital city's persistently low vacancy rates induced an uptick in rental starts. So far this year, area builders have maintained last year's elevated pace of production, pouring foundations for 160 units to the end of March, up 63 per cent from the first quarter of 2010.

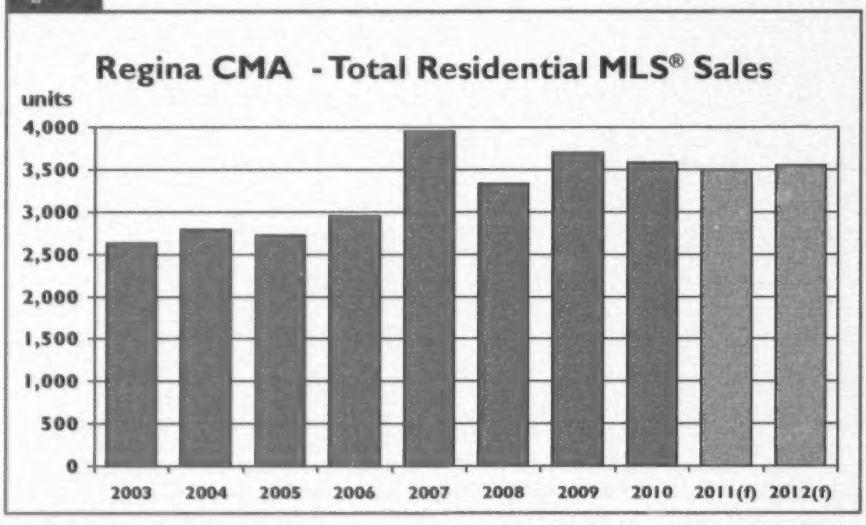
While demand for multi-family housing will remain strong over the forecast period, the heightened pace of starts over the past few months has fuelled an increase in overall supply of multi-family units, and this will be a restraining factor on starts this year and next. At 886 units at the end of March, the total supply of multi-unit homes in Regina was up 25 per cent from the prior year and represented almost a two and a half-fold increase from the average of 359 units that constituted monthly supply from 2000 to 2009. This is unfamiliar terrain for the region's multi-family builders who will likely respond by scaling back the currently elevated level of starts until supply levels move lower.

RESALE MARKET

MLS® sales to moderate in 2011 before rising in 2012

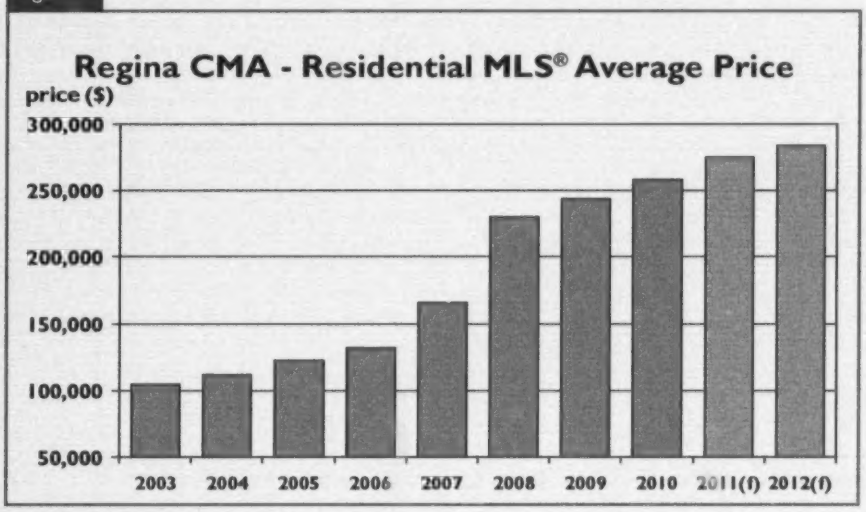
In 2010, historically low mortgage rates and an expanding economy

Figure 3



Source: CREA, CMHC Forecast (f)

Figure 4



Source: CREA, CMHC Forecast (f)

bolstered resale housing demand through the first half of the year. However, rising house prices along with the offsetting effect of home purchases brought forward in anticipation of tighter lending conditions negated these gains in the second half of the year, resulting in a 3.3 per cent decline in annual resale transactions. This year, resale price growth is expected to be stronger in Regina, increasing homeownership costs and impeding consumer demand for resale homes. This will set the stage for a slight moderation in sales to 3,500 units, down 2.3 per cent from the prior year. Anchored by an expanding economy and a slower pace of resale price growth, sales of existing homes next year will record a modest uptick to 3,550 units.

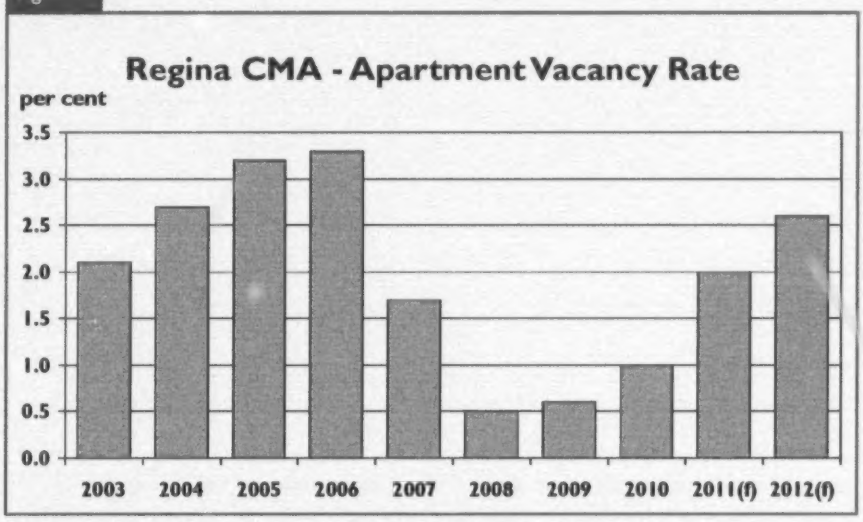
In 2010, record low mortgage rates along with solid employment and wage gains provided the platform for a six per cent increase in the average resale prices. Moving forward, the record price advances and subsequent equity gains of recent years will encourage some homeowners to trade up to a more expensive unit. Consequently, in spite of the anticipated moderation in resale transactions and expected increase in the supply of active listings, Metro's resale market will record robust price growth this year. Expect the average MLS® price to increase 6.6 per cent to $275,000 in 2011. Next year, resale price gains will be tempered by the combination of higher homeownership costs and a larger selection of resale homes, with average resale prices projected to advance 3.3 per cent to $284,000.

RENTAL MARKET

Average vacancy rate tops two per cent

In 2011, renters in Regina's apartment market will find it easier to locate a vacant unit. For the first time in five years, apartment vacancy rates will reach the two per cent mark, up from one per cent in 2010. This will be followed by an additional uptick in vacancies to 2.6 per cent in 2012. Additions to the rental universe in the form of newly-constructed units, as well as continued competition from the secondary rental market will provide the major impetus for the increase in the average vacancy rate. CMHC's October 2010 Rental Market Survey revealed that 15.2 per cent of all condominium apartments had made their way into the secondary rental market. Meanwhile, Regina's persistently low vacancy rates, coupled with various incentives from multiple

Figure 5



Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

levels of government, have recently induced increased rental construction which is expected to persist over the next two years. At the end of March 2011, 249 rental units were under construction, an indication of pending increases in rental apartment supply in the months ahead.

Moderate increases in average monthly rent through 2012

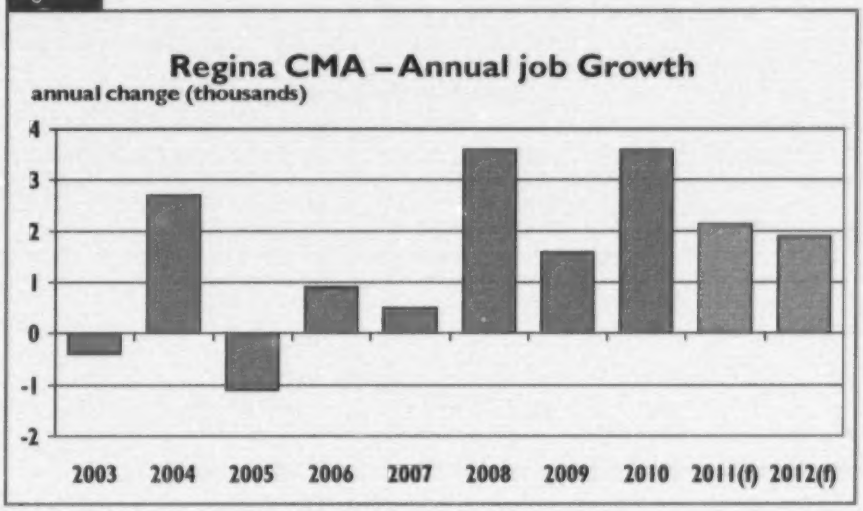
In spite of rising apartment vacancy rates, Regina's expanding population and solid employment prospects will ensure that demand for rental accommodation remains strong over the forecast period. This will sustain rental demand over the next two years, and spur increases in average rents, albeit at a moderate pace as property managers seek to prevent tenant turnover. Hence, following a $49 monthly increase last year, the average monthly rent for a two-bedroom apartment is forecast to advance $29 to $910 in the October 2011 survey. Next year, buoyed by additions of newer units at the higher price ranges, average monthly rent for a two-bedroom apartment is projected to climb to $950.

ECONOMIC OUTLOOK

Sustained expansion over forecast period

In 2010, the global economic recovery and increased commodity and utility prices helped bolster economic activity across Regina. Consequently, the economy continued to generate jobs, with average employment advancing 3.1 per cent year-over-year to average 118,900 positions. This expansion culminated in the addition of 3,600 workers, the majority of who assumed full-time positions. In spite of this uptick in job creation, Metro's average unemployment rate recorded a modest increase due to stronger additions to the labour force and increased participation rates.

Figure 6



Source: Statistics Canada, CMHC Forecast (f)

Over the forecast period, Regina will benefit from the on-going global economic recovery and continued increases in demand and price for key commodities such as oil, potash, and uranium. These will ensure that Regina continues to draw in large amounts of private sector investment in new and on-going capital projects. Major capital projects include the on-going 1.9 billion dollar oil refinery expansion, which is scheduled for completion in 2012, as well as several transportation and highway expansion projects. Likewise, construction crews will be busy this year and next, completing work on several projects pertaining to the redevelopment of the capital city's downtown region.

Despite these sources of optimism, persistent rainfall and potential flooding in the coming months could impede agricultural production and exports this year. As well, the persistently high value of the Canadian dollar which continues to temper exports to Saskatchewan's primary export market, the United States, is another factor inhibiting the expansion. On balance, the above factors will contribute to a 1.8 per cent expansion in employment this year, followed by an additional 1.6 per cent gain in 2012.

Regina maintains elevated net-migration levels through 2012

Last year, the capital city's vibrant labour market characterised by its relatively low unemployment rate and rising incomes drew a record number of migrants into the region. The region's unemployment rate, while up from the low of 4.4 per cent in 2009, averaged 4.8 per cent in 2010, the lowest unemployment rate of any of the major CMAs in Canada. These factors helped push annual net migration in Regina to 3,726 people in 2010, the highest total in over 20

years. Moving forward, the capital city appears primed for a repeat of last year's strong performance as continued employment growth and low unemployment rate relative to other markets will ensure that Regina retains its attractiveness to potential migrants through 2012.

Inter-provincial migration continues to be a key contributor to Regina's elevated migration levels. However, higher housing costs as well as the anticipated economic expansions in many other centres across Canada will temper some of Regina's draw for job-seekers from other parts of the country. Hence, we anticipate that Regina will be increasingly reliant on international migration to maintain the currently elevated levels of migration. This should not pose major concerns, however, as the Saskatchewan Immigrant Nominee Program (SINP) continues to draw increasing numbers of international migrants, most of whom choose to settle in either Regina or Saskatoon. Overall, the stage is set for a slight uptick in net migration over the next two years as the capital city welcomes 3,800, and 3,900 persons in 2011 and 2012, respectively.

MORTGAGE RATE OVERVIEW

On April 12th, the Bank of Canada announced that it was leaving the Target for the Overnight Rate unchanged at 1.0 per cent. The last increase in the overnight rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. The Bank of Canada is expected to resume raising the overnight rate in the fourth quarter of 2011. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat in 2011 before increasing moderately in 2012. For 2011, the one-year posted mortgage rate is assumed to be in the 3.1 to 3.5 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.1 to 5.6 per cent range. For 2012, the one-year posted mortgage rate is assumed to be in the 3.4 to 4.3 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2 to 6.3 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Forecast Summary Regina CMA Spring 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	3,338	3,704	3,581	3,500	-2.3	3,550	1.4
MLS® New Listings	6,355	6,219	6,146	6,200	0.9	6,300	1.6
MLS® Average Price ($)	229,716	244,088	258,023	275,000	6.6	284,000	3.3
New Home Market							
Starts:							
Single-Detached	979	569	708	700	-1.1	720	2.9
Multiples	396	361	639	575	-10.0	550	-4.3
Starts - Total	1,375	930	1,347	1,275	-5.3	1,270	-0.4
Average Price ($):							
Single-Detached	359,795	392,043	438,979	465,000	5.9	478,000	2.8
Median Price ($):							
Single-Detached	333,600	371,438	409,016	420,000	2.7	430,000	2.4
New Housing Price Index (% chg.)	26.2	5.6	5.2	4.4	-	3.9	-
Rental Market							
October Vacancy Rate (%)	0.5	0.6	1.0	2.0	-	2.6	-
Two-bedroom Average Rent (October) ($)	756	832	881	910	-	950	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.23	-	3.76	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.45	-	5.94	-
Annual Employment Level	113,700	115,300	118,900	121,000	1.8	122,900	1.6
Employment Growth (%)	3.3	1.4	3.1	1.8	-	1.6	-
Unemployment rate (%)	3.8	4.3	4.7	5.1	-	4.8	-
Net Migration	2,088	3,581	3,726	3,800	2.0	3,900	2.6

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of April 28, 2011.

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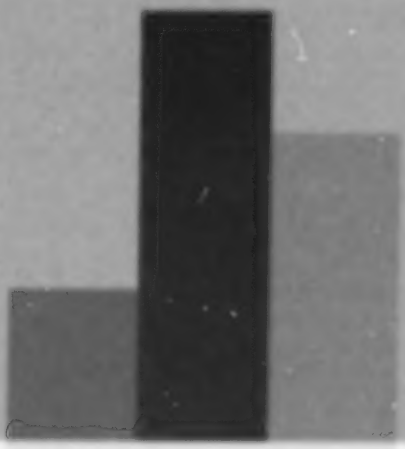

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